SUBMISSION

TO

THE MINISTER OF FINANCE

THE HONOURABLE MITCHELL W. SHARP

ON

THE REPORT OF THE ROYAL COMMISSION ON TAXATION

FROM

INVESTMENT DEALERS' ASSOCIATION OF CANADA

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INTRODUCTION

The Report of the Royal Commission on Taxation is a most detailed and comprehensive study of income and sales taxation. It will make a major and lasting contribution to the theory of taxation and will contribute to a better understanding of a most complex subject.

It seems unfortunate, however, that when so much time and effort was spent upon this study of our tax system that the financial requirements of the provincial and municipal governments were not considered in depth and that the other half of the fiscal equation - government expenditures - was ignored.

The Report of the Royal Commission recommends an entirely new federal tax system for Canada. Implementation of the prime recommendations could lead, we believe, to major problems which could have serious effects on Canadian security markets and on the economy as a whole.

A growing economy needs an increasing supply of capital. In the ten year period from 1955 to 1964 inclusive, Canada's Gross National Product increased by $23 billion, or 91%. During the same period, the Canadian investment industry raised a total of $26 billion through the sale of net new security issues. Of this amount, $22 billion was raised in the bond market and the balance through the sale of preferred and common shares.

As an integral part of the investment industry, the Investment Dealers' Association of Canada is concerned with the ability of its member firms to raise the funds which will be required if the Canadian economy is to continue to expand.

Stability in bond and stock markets is essential for this purpose. Security markets are extremely sensitive to actual or threatened changes in the economic and political climate. Investor confidence is the cornerstone of security markets and without it, prices decline and new funds are no longer available. An example of this is the series of problems recently encountered by the Canadian sales finance and consumer loan industries.

Our approach to the Commission's Report has been to examine the recommendations and to concentrate on the problems that could arise if they were implemented, particularly the serious effect they would have on the availability of funds to meet the expected capital requirements of governments and business.

There are a number of recommendations made by the Commission on which we have not commented. Our emphasis on the potential problems should not be construed as a defense of the present tax system, which leaves much to be desired.

The problems which we foresee and the reasoning which has led to our conclusions are discussed under the following inter-related headings:

Capital - Supply and Demand

Security Prices

Savings and Investment

Gifts and Bequests

Capital Gains

Mobility of Capital

Foreign Investment

Extractive Industries

Administrative Problems

As the basic philosophies of the Report are not discussed in detail in this brief, some general comments should be noted at this time. It appears that pure value judgements of the Commission have played a major role in the development of these philosophies. We refer specifically to their concept of horizontal and vertical equity and their obvious intent to use the federal tax system as a prime means of redistributing economic wealth among the various income groups. While one cannot fault these concepts in the abstract, the extent to which the Commission would apply them must be strongly opposed. The socialistic overtones of the Commission's recommendations provide a virtual blueprint for a whole new system of government control over individuals and business. This is certainly not in keeping with our present system of free enterprise and the democratic principle that government is the servant of the people.

The Commission's Report is an outstanding exercise in logic and symmetry, based upon the academic concept of the perfect model and designed for a mature economy operating in a complete vacuum. The highly theoretical approach of the Commission pays scant attention to the hard practicalities of every day life and the less than perfect state of the Canadian economy at its present stage of development. Difficulties of adjustment are dismissed lightly by the Commission with the suggestion that monetary or other policies should be able to cope. The Report substantially ignores the serious international complications which could arise if Canada were to adopt the recommendations of the Commission.

CONCLUSIONS

Implementation of the Commission's recommendations could lead to major problems in the following areas:

1. Costs of government would increase and a short-fall in revenue could result.
2. The competitive position of Canadian industry could be severely damaged, particularly in export markets.
3. Annual corporate and personal savings would be substantially reduced.
4. Major dislocations of both the bond and stock markets would occur.
5. The mortgage market could require government support on a continuing basis.
6. Accumulated pools of capital would be depleted.
7. Equity funds of foreign portfolio investors would be lost to Canada.
8. The growth rate of foreign direct investment, particularly in the extractive industries, would decline.
9. Canadian participation in risk ventures would be discouraged in favour of investment grade equities.
10. Continued Canadian ownership of small businesses would be jeopardized and new business ventures could be discouraged.
11. The mobility of investment capital and the breadth and liquidity of Canadian security markets would be reduced.
12. Canada's reliance on foreign debt capital would be greatly increased and could lead to a balance of payments problem.
13. Foreign investor confidence could be damaged and could lead to a financial crisis in Canada.

CAPITAL - DEMAND AND SUPPLY

Demand for Capital

Overall demand

The overall demand of the Canadian economy for funds is not expected to change materially regardless of whether the recommendations of the Carter Report are implemented or not. By this we mean that the requirements which have shaped the broad, over-all pattern of spending by all levels of government and by all segments of Canadian business will not be reduced. On the contrary, if Canada is to maintain a healthy, growing economy with continued development of its resources and an improving standard of living for its population, then the need for capital funds will continue to increase as it has in the past. With this thought in mind it is pertinent to examine briefly the current demand for funds in Canada as it appears from the available data.

Demand of governments

Outstanding direct and guaranteed debt of the Government of Canada during the five-year period from 1960 to 1964 inclusive increased from $17.1 billion to $20.7 billion, an average increase of about 4% per year. Provincial and Municipal borrowings rose at a much faster pace. During the same five year span provincial debt rose from $6.4 billion to $11.1 billion and municipal debt increased from $3.4 billion to $5. 1 billion. These represent average annual increases of 11.8% and 8.5% respectively. (1)

The total spending of governments at all levels continues to rise in comparison to the Gross National Product. In 1960 government expenditure amounted to 30.9% of G.N.P. and in 1966 is estimated to have risen to 32.5%, and it has been further estimated that the share of Gross National Product taken by all governments is likely to rise by 2% or 3% over the next 4 years. (2) It would appear that this must be so as long as governments deem it necessary to continue providing an ever-widening scope of services, either to satisfy a real demand or in response to sectional or regional pressures.

(1) Bank of Canada Statistical Summary.
(2) Speech of The Minister of Finance to the Canadian Tax Foundation Conference April 26, 1967.

Cost to governments

There seems to be a major omission in the Commission's Report, however, as to what its implementation would do to the cost of satisfying these demands. As discussed later in this submission the proposals appear, on balance, to favour increased investment in equities at the expense of fixed income securities. Therefore governments, in order to compete for money, will be forced to pay higher interest rates. The cost of government at all levels will automatically rise in some presently undetermined magnitude with little corresponding benefit to the country. Added to this would undoubtedly be a sizeable increase in the cost of tax collections.

Since the Report estimates that the proposed system would produce about the same amount of revenue as the present system, federal government revenues would fall well short of requirements because of the increased costs mentioned above. This view is strongly emphasized by the statement in the Report that the drop in revenue resulting from integration would be immediate while revenue from the capital gains tax would build up slowly. The resulting short-fall could only be covered by increasing taxes, resorting to increased borrowings, or both. If taxes had to be increased then we would have the curious but expensive anomaly of the Commission's Report having incorporated in itself the destruction of its proposed rate structure. If increased borrowings were utilized then the government's problem of increased interest expense would be compounded since such borrowings would have to be made at new higher prevailing rates of interest. We strongly urge that the whole area of increased government cost under the Commission's proposals be given thorough study.

Corporate demand

The financial requirements of Canadian business show the same strong rising trend. Capital outlays of all businesses increased over 60% from 1960 to 1964 inclusive, an average of 12% per year. The greater part of these have

been concentrated in manufacturing, where the average annual increase has been approximately 25%. This seems only logical as population increases, as resources are developed and as the economy matures. It is safe to say that, while the rate of increase may eventually slow down and the nature of the demands may change, Canadian business will continue to demonstrate an increased need for outside financing.

Corporate capital sources

During the five year period from 1960 to 1964 inclusive, Dominion Bureau of Statistics figures indicate that annual new investment of Canadian corporations rose from $3.54 billion to $5.28 billion. The proportion of these requirements provided by capital cost allowances and depletion declined from 57% to 53%. The part provided by retained earnings remained fairly constant in the neighbourhood of 28% to 26%. The total provided by net new security issues rose from 15% to 21% and it is with this latter segment that we are largely concerned here.

Changes and effects

Under the Commission's proposals depletion would be cancelled but the basic format of capital cost allowance would remain essentially the same, except that they would eliminate accelerated depreciation for other than new and small businesses, so that while capital cost allowances would continue to provide major sums for new capital expansion, the total from both these sources would be less than under the present system because of increased taxation. When this effect is combined with the declining percentages referred to above, it is obvious that Canadian corporations would have to look to other sources to finance their growing capital requirements. Since the percentage of retained earnings has remained constant, and as we do not expect them to increase under the Commission's proposals, it is evident that the demand for outside financing would continue to grow at an accelerated rate.

<u>Supply of Capital</u>

The Commission's proposals would have a much more dramatic effect on the total supply of funds and the manner in which these funds are allocated. Although there would

be set in motion many actions and reactions, the results of which are difficult to assess, it is still possible to determine certain trends which would become evident. While we are unable to measure the total dollar effect of the proposed changes, we believe that if any of the proposals appear to have a harmful effect on a major source of capital, then such proposals should be approached with extreme caution.

Bank of Canada

The holdings of the Bank of Canada, which now owns about 15% of the outstanding federal debt, should not increase materially because any substantial rise in their holdings would present the spectre of serious inflation. The implementation of the Commission's recommendations could however place a heavy transitional burden on the Bank.

In addition, the rigidities inherent in the Commission's proposals, particularly the 50% flat rate on corporate income, the 50% top rate on personal incomes and the broadening of the tax base to include income from virtually every conceivable source would substantially reduce the effectiveness of fiscal policy as a means to influence trends in the economy. This would place considerably greater reliance on monetary policy and moral suasion in directing economic growth.

Chartered banks

Any assessment of the effects of the Commission's proposals on the Canadian chartered banks must be made in the light of the recent changes in the Bank Act, the most important of which are the removal of the ceiling on interest rates chargeable by the banks and the freedom of investment action which should permit the banks to move into higher risk, longer term loans and mortgages to maintain their competitive position.

The question is whether the changes in bank reserves proposed by the Commission would offset those set out in the Bank Act and cause the banks to avoid the higher risk loans. In our opinion it is likely that the freedom to charge higher interest rates will be the decisive influence.

Losses experienced by the chartered banks for the past twenty-five years have averaged .161%. The reserve ratios proposed by the Commission are equivalent to about 12 years' loss experience and since the adjustment to these lower ratios would take place over a ten year period, it is not expected to have an over-riding influence on bank investment policy.

The banks' investment policies are closely related to their ability to attract funds. In the past their liabilities have grown roughly in line with the general economy and as a result of our studies we assume in general this will continue to be the case.

Life insurance companies

As a result of taxing life insurance companies on substantially the same basis as other businesses, there could be a reduction in the funds available to them for investment. Based on 1964 figures, the Commission estimates that life insurance companies would have paid additional taxes of $75 million, or about 12% of their net investment during that year. In addition, but much more difficult to determine, would be the loss of premium income because equity investments would probably become a more attractive form of personal savings than the savings portion of life insurance.

The Commission proposes that after an unspecified period of time the proceeds of life insurance received outside the family unit should be taxed at full personal rates. This may result in increased sales of or switches to term insurance with a higher face value to provide the same after-tax protection. This could result in lower individual savings through this medium.

Because of the proposed changes in the tax treatment of life insurance companies and because of integration, they would be expected to increase their purchases of equities and decrease their purchases of debt securities. The following calculations give some indication

of the possible magnitude of the expected changes in their buying habits. In 1964 these companies held slightly over 3% of the book value of their assets in equities although by law they were permitted to hold up to 15%. Since then the Canadian and British Insurance Companies Act has been amended to allow federally chartered companies to invest up to 25% of their assets in equities. If these companies were to increase their equity holdings to, say, 15% of their assets, this would involve approximately $1.2 billion of new equity purchases based on 1964 figures. This would probably take place over an extended period of time through the investment of their available funds in equities, while holdings of debt securities remained relatively constant.

Mortgages

With the new tax laws favouring equities, mortgage rates would have to increase in order to compete for funds. There is a danger, however, that mortgage rates could become so high that individuals could not afford to pay them. In which case the demand for such funds would cease to be a factor. This is a distinct possibility if the Commission's proposals are adopted. Under such circumstances, if housing were considered economically and socially important, the government would probably have to supply the funds on a continuing basis.

Other financial institutions

As long as the mortgage market remains a factor in the private sector we would expect that the supply of funds that would be available to mortgage companies, savings and loan companies and trust companies, and the manner in which these funds would be invested, would not change materially. These companies derive a large portion of their funds through fixed interest borrowing. Since many investors would continue to have some portion of their portfolio provide both guaranteed income and liquidity through relatively short term investments, these companies would continue to attract funds. It seems unlikely, however, that these institutions would invest any substantial portion of the receipts from their

fixed interest obligations in common stocks. While well seasoned preferred shares might become more popular, they would probably still prefer fixed term instruments with repayments geared to their own maturity requirements.

Since caisses populaires and credit unions would be taxed like other competing institutions, except to the extent that 50% of patronage dividends were paid in cash, in which event they would become taxable in the hands of members, their growth rate would probably be reduced. At present their funds are lent to members and only a small balance finds its way into other investment media, so that a major change in their investment habits would not be likely.

Pension funds

Pension funds comprise one of the major sources of investment savings in the country. During the five year period from 1960 to 1964 inclusive their investments increased from $2.9 billion to $5 billion, an average annual increase of about 14%. (1) In 1964 Canadian pension funds held 67.1% of the book value of their assets in bonds and only 13.4% in stocks. In the same year U.S. pension funds held 45% of their assets in bonds and 43% in stocks. (2) The continued exemption from income taxes and the added advantage of integration would at least double the present yields on equity investments of pension funds, and there would be a strong incentive for these funds to increase their equity holdings, with a corresponding decrease in the holdings of fixed income securities. If these funds move towards a 50% equity position, which would not be out of line with their U.S. counterparts, this would mean that in 1964 $1.8 billion then invested in fixed income securities would have been available for re-investment. The magnitude of these figures would be substantially greater today. While such re-investment would not take place immediately, a large proportion would undoubtedly be diverted to equities as holdings

(1) Appendix "A"
(2) Fortune Magazine, June 1966.

matured. In addition to this, the new money received by pension funds would also be biased in favour of equities.

Conclusion

Our examination of the Commission's recommendations and their effect on the investment policies of the major financial institutions leads us to the conclusion that their adoption would cause a major disclocation of the long term bond market.

If equities do become much more attractive to pension funds, then similar funds administered by governments would of necessity invest a reasonable portion of their assets in equities, instead of allowing their funds to remain dumping grounds for otherwise unsaleable government bonds.

Corporate savings

Corporate savings in the form of depletion, capital cost allowance and retained earnings account for about 75% of total savings in Canada. The Commission estimates its proposals would have no appreciable affect on the volume of savings from this source. Although corporate taxes would be increased by $532,000,000 annually the Commission believes the companies in the aggregate would be able to reduce their cash dividends by a like amount as a result of the integration proposals.

We are unable to accept these conclusions. In general management would find it difficult to justify a reduction of cash dividends to shareholders because the increase in taxes per company arising from the elimination of the dual corporate rate would be so small in relation to their after-tax earnings. Our conclusion is that business savings would fall by approximately the amount of the tax increase.

Individual savings

Over the long term it appears that the Commission's proposals would have the effect of substantially reducing the total volume of direct investment by resident Canadian individuals. While the Report concludes that the effect on the personal savings of "typical" families would be negligible, it also points out that upper income families would pay substantially higher income taxes, and these higher taxes

would result in a reduction in the personal savings of this group by virtually the same amount.

The amount saved from the tax reductions to be received by the lower income group would only fill a minute part of the gap. Today their savings are concentrated largely in home ownership, life insurance, Canada Savings Bonds, mutual funds and pension funds. The proposed tax reduction would probably do a little more for these people than temporarily keep pace with the rising cost of living. To the extent that the lower income group is attracted to the equity market directly or indirectly, we predict their investments in these securities would be accomplished through a reduction in savings accounts, life insurance policies and their holdings of Canada Savings Bonds. Should this prove to be the case, reduced purchases and increased liquidation of Canada Savings Bonds would be one more factor which the government would have to take into account in solving its financing problems.

Non-residents

Over the years Canada has depended upon non-residents (1) to satisfy a large portion of its financial requirements. From 1960 to 1964 inclusive, non-resident holdings of government and corporate funded debt rose from $5.7 billion to $8.5 billion, an increase of 33%. An examination of the figures indicates that both provinces and municipalities consistently rely on non-resident sources to supply approximately 25% of their debt requirements. Corporations have been borrowing even more heavily from non-residents and in 1964 corporate funded debt held outside Canada was approaching 40%. (2)

From 1960 to 1964 inclusive non-resident holdings of common and preferred stocks of Canadian corporations at book value rose from $15.0 billion to $18.8 billion, an increase of 25.3%. (2) While we recognize the major contributions made to

(1) When we speak of "foreign" capital or "non-resident" investment we mean primarily the United States since that country is the only source of external funds of major importance to Canada.

(2) Appendix "A".

the development of the Canadian economy by foreign capital, there has been considerable concern in some quarters over the high degree of foreign ownership of Canadian resources and much discussion about the best ways to correct the situation if, indeed, it needs correcting.

Conclusions

Reaction of non-residents

The prices of Canadian common stocks are expected to rise if the Commission's recommendations are adopted. That being the case, non-resident ownership of Canadian stocks would tend to decrease. The Report observes that a large proportion of non-resident investment is presently held in industries which now receive tax concessions, and leaves the impression that it is just accidental that non-residents would be adversely affected by their proposal to remove these concessions thus increasing the tax base of the companies in these industries. It is likely that non-residents would dispose of shares in these companies in order to invest elsewhere. Probably a large part of the resulting funds would not be re-invested in Canada but, rather, in other countries where the available investment opportunities were matched by more favourable tax treatment.

The reduction of non-resident ownership in companies which do not now receive special tax treatment would probably occur over a somewhat longer period. While, under the treatment proposed by the Report, non-residents would not receive any benefit from the integration of personal and corporate income taxes, neither would they be taxed by Canada on capital gains resulting from portfolio investment. Therefore, there could continue to be considerable non-resident interest until stocks had been bid to the new equilibrium level by Canadian investors. There might even be considerable short-term speculative buying by non-residents during the early stages. How much of this type of non-resident interest would come from the U.S. is problematical since many

Americans might not choose to subject themselves to imposition of the Interest Equalization Tax. However, they would be free to participate in the market for stocks currently exempt from this tax and the list of exempt stocks is quite extensive.

Loss of foreign capital

When the stock market stabilized at higher levels, non-residents would sell their holdings and re-invest their capital and profit in some other country. Non-residents probably would not re-invest in Canada because for them capital gain potential, yields and price-earnings ratios would be out of line with similar investments available in other markets.

Thus, we would be driving out that form of foreign capital most attractive to Canada. From a Canadian point of view foreign portfolio equity investment exercises little or no direct control and the capital supplied often flows to risk areas and so helps in the development of the Canadian economy.

Foreign direct investment

With the exception of the extractive and life insurance industries the Commission's proposals would appear to have little effect on direct investment in Canada by non-residents. We do not agree with the Commission's claim that the proposed tax changes would induce foreign companies to sell all or part of their wholly-owned subsidiaries to Canadian residents.

Effects on resident and non-resident holdings

Because of the more favourable tax treatment, resident funds are expected to move out of funded debt into stocks, and at the same time the Commission's proposals would discourage non-resident portfolio equity investment and increase our reliance on foreign debt money to fill the gap left by Canadian residents. This seems to savour of wanting the best of two worlds. If foreign equity investment is reduced it cannot be assumed that these funds would be re-invested in Canadian debt securities because equity investors are largely motivated by the prospects of capital gain, not by a fixed return.

There is a distinct possibility that the reduction in foreign investment in Canadian shares would be delayed in order to take full advantage of the expected rise in prices. Canada could then be looking for an absolute increase in funds to supply its requirements. This could lead to problems of foreign exchange.

Foreign exchange problems

The Report is guilty of some rather extraordinary flights of fancy in its estimate of the effects, at the corporate financing level, of the higher equity prices expected to result from the integration of personal and corporate income taxes. The Report states that cash dividends could be reduced because of the ability of corporations to allocate tax-paid income without a corresponding cash disbursement and, further, that the higher share prices would enable corporations to attract new capital at lower costs. Because of this new found ability to retain and/or obtain funds, the Commission suggests that corporations would be encouraged to expand their operations by investing in new projects showing a lower rate of return than is deemed necessary under current tax laws. The theory is that this could be done without significantly affecting the after-tax return to shareholders.

Corporate financial policies

We submit that this whole train of thought is merely wishful thinking. The bulk of the increase in corporate taxes would arise from the elimination of the dual tax rate which would increase individual company tax payments by not more than $10,150 per annum. If a publicly held corporation used this excuse to reduce its cash dividend such action would be regarded in the same light as the reduction or passing of a dividend is today. It could be interpreted as a sign that the corporation was in financial difficulties, not that it was saving to pay for a new, previously un-economic, low-return project. Furthermore, it can be demonstrated that the benefits of integration to the shareholder decrease as his rate of tax rises. Many

Dividend policy

individual shareholders are in the upper tax bracket and allocation without cash is of little immediate benefit to this group. For example, the shareholder in the 50% tax bracket would receive no immediate cash benefit from an allocation of earnings, and the current return on his investment would be entirely dependent upon the amount of cash dividend paid.

New corporate financing

The Report takes the position that because share prices would be higher the cost of capital would be lower and corporations would favour an increase in equity financing and a corresponding reduction in debt financing. This simplified view overlooks two important points which have to be dealt with in corporate financing - control and dilution of future earnings.

Control and dilution

Controlling shareholders usually stipulate that after new financing their control must be maintained. This often means that some form of financing other than common shares must be used. While preferred shares may be utilized corporate management has to consider the relative cost of debt financing to the company. The cost of debt capital is a predetermined amount paid for over a fixed period of time. By comparison the true cost of additional common equity is the degree to which its issue would reduce future earnings on a per share basis. Dilution of share earnings in the long run is far more expensive than debt servicing costs and, furthermore, such dilution carries on for the life of the company.

Management responsibilities

Therefore, when considering additional financing, corporate management must be extremely careful that the expected return justifies both the amount and type of securities issued. We believe that corporate managements would continue to base their decisions on the effects on the corporation, not on the shareholders, whose individual circumstances would be difficult to ascertain. It would be doing a disservice to existing shareholders if it diluted earnings by investing in projects showing a low rate of return to the corporation.

In our opinion, Canadian public companies will continue to satisfy their capital requirements on the same criteria as in the past. Where income tax is considered, it will be income tax at the corporate level, not the shareholder level. Assuming that a new state of equilibrium will be established for stock and bond prices, the form of new public financing by corporations will continue to be a reasonable mix of debt, preferred and common share issues. The mix, as heretofore, will be determined by sound investment standards.

SECURITY PRICES

Proposals

The recommendations contained in the Commission proposals that would directly affect security prices are:

1. Integration of personal and corporate income taxes.
2. Introduction of a capital gains tax at full progressive rates, with provisions for deducting capital losses.
3. Increased taxation of industries which for many years have received some form of income tax concessions.

Initial reactions

The all-embracing nature of the Commission's Report proposing a completely new system of taxation has naturally led to a great deal of uncertainty, confusion and anxiety throughout the country. As a result we are in a period of relative inactivity which will continue until the amendments to the Income Tax Act have been passed into law and tested in practice. Since publication of the original Report the reaction of security markets has been minimal. This should not be interpreted as acceptance of the recommendations but is, we believe, a reflection of the confusion it has engendered. However, we predict a sharp reaction once the Government's attitude to the Report is revealed with the publication of the White Paper if the White Paper endorses the three points above. Subsequently, we would expect considerable

price fluctuations in security markets as the pros and cons of the Government's policies are assessed.

Bonds

Bond yields would rise in order to compete with the after-tax return for equities. The proposed capital gains tax, as such, is not likely to be of much importance in effecting the level of bond prices. A major omission by the Carter Commission has been the apparent lack of concern for what increased interest rates would do to the cost of financing governments. Governmental bodies finance through bonds; therefore, their costs would automatically increase.

Individuals have not been large bond buyers over the past few years, with the exception of Canada Savings Bonds. The Commission's recommendations would result in individuals being even less of a factor in this market because of the effects of integration. However, the major impact on the bond market would be through the reaction of institutional investors. Pension funds and life insurance companies in particular, historically have been large buyers of new bond issues. However, to realize the benefits of integration these institutions would have to increase their equity holdings as a percentage of their total assets. The size of this increase could be $3 billion (1) or more, which would result in a corresponding decrease in their demand for debt securities. This sum is greater than the five year average, 1960 to 1964 inclusive, of all net new Canadian security issues of all categories in all currencies. (2) Even after the initial increase in equity holdings had been accomplished the demand of these institutions for debt securities would have to be considerably below present levels in order to maintain the new higher equity - debt ratio.

The Commission implies that increased yields will attract additional foreign investors into the Canadian bond market. If our bond rates rise much higher than those in other parts of the world, we would attract foreign funds if

(1) see pages 6 and 7.
(2) Bank of Canada Statistical Summary.

investor confidence could be maintained. We could be impeded, however, by such things as the U.S. "guidelines" and the Interest Equalization Tax.

Preferred shares

The present market for preferred shares consists, to a large degree, of resident Canadian individuals who invest in preferred shares for the purpose of earning income while enjoying relative safety of capital. Since they are not looking for capital gains, and so long as dividends continue to be paid on a regular basis, holders of preferred shares tend to retain these investments for long periods of time. This means that the market for preferred shares is relatively inactive and prices move in a narrow range as interest rates fluctuate.

Should the Commission's proposals be fully implemented and should the Canadian economy weather the subsequent dislocation with as few problems as the Report suggests, then preferred shares would become a more attractive investment for Canadians. Preferred shareholders would be entitled to claim the full credit for income taxes paid by the corporation on their shares, but would not normally be entitled to the benefits of allocation.

The potential price increase of preferred shares would be limited because most preferred shares are subject to redemption at a stated price at the option of the issuing company. Therefore, it is not likely that buyers would pay greatly in excess of the call price because they would incur a capital loss on redemption. Once the prices of preferred shares became stabilized at higher levels, it is possible that a great many corporations would redeem their outstanding preferred and issue new preferred shares with a lower dividend. Preferred shares may become a more popular means of corporate equity financing.

Common shares

The market for Canadian common stocks is much more widespread than the market for preferred shares. Our experience indicates direct holdings of common stocks by

Canadian individuals are in the hands of the upper income groups. Stocks owned by the lower income groups are usually acquired and held through contractual savings plans with financial institutions. Sizeable holdings of Canadian common stocks are also owned by non-residents. In the case of U.S. residents, this is particularly true of those stocks which are listed on stock exchanges in Canada and the United States and those stocks which are currently exempt from the U.S. Interest Equalization Tax.

The prices of common shares are expected to rise if the Commission's proposals are adopted because of the higher after-tax yield resulting from the integration of personal and corporate income taxes. However, under the proposed system the evaluation of common shares would be much more complex and confusing than it is at present. The circumstances of corporations, even those operating in the same industry, differ widely. This, in turn, causes great differences in their tax accounting and reporting to the government and to shareholders. The point is that it would be much more difficult for an investor to know the full extent of tax credits for dividends and allocations to which he might be entitled.

Investment grade common shares, that is those purchased primarily for income and safety of capital, would become much more attractive under the Commission's proposals than common shares of a more volatile nature. The immediate return on investment grade common shares would be substantially increased by integration.

Growth stocks sell at high price-earnings ratios in anticipation of future earnings. Thus integration would have much less effect upon their immediate return. Assuming ultimate disposition of the shares at a profit, the net impact of the proposed capital gains tax would be greater on the growth stock than it would be on a stock selling at a lower price-earnings ratio. Therefore, under the Commission's proposals, growth stocks would not benefit as much as stocks of investment grade.

The Commission's proposals of integration and the inclusion of capital gains as income would encourage investment in mature self-sufficient industries with a high cash dividend yield and a high earnings allocation instead of into risk investments. A developing country such as Canada would be poorly served by such a tax induced bias.

Extractive industries

There is little doubt that shares in the extractive industries would sell at lower levels in relation to the shares of other industries. The cancellation of depletion allowances for mining and oil companies and the phased withdrawal of the three year tax exemption on new mines would substantially increase the income taxes payable by these companies. These provisions have been an important incentive to find new properties and bring them into production, and without incentives the growth rate of these industries would decline. Many investors would shy away from the purchase of mining and oil shares because they would be too risky in terms of potential return. Since non-residents are heavily invested in these fields, a large outflow of development capital could result.

In our opinion the market for speculative mining shares could be substantially reduced. Despite abuses which have been criticized in the past, the "penny mines" have made many important contributions to Canada's wealth. Today's producers were yesterday's speculations. The Commission has tried to compensate for its other recommendations by enabling shareholders to offset capital losses against income and to write down the cost of newly issued shares through application of the amount spent on exploration. It is doubtful that these provisions would offset the effects of removing the special incentives of depletion and tax-free period.

Capital gains tax

The inclusion of capital gains in income, taxable at full progressive rates, would inhibit some of the increases which otherwise would occur in common stock prices, and make the

raising of new corporate equity more difficult than it would otherwise be. Tax free capital gains have been an important incentive in the raising of risk capital which in turn has been a strong factor in advancing the Canadian economy. We strongly oppose the imposition of a capital gains tax in any form since it could only reduce the rate of private capital accumulations on which this country is dependent for economic development.

SAVINGS AND INVESTMENT

The savings-investment pattern is the fulcrum of prosperity and any disruption of the pattern can only retard economic growth.

Savings are what individuals, companies and governments have left over after meeting expenditures, and the more a nation saves the more it can invest in the means of production, distribution and social capital. Thus, the continuous creation of new capital is central to a rising standard of living. The impact of the Commission's proposals on savings and investment would have great significance for Canada.

The source and disposition of Canadian savings for the years 1959 to 1966 inclusive are set out in Appendix "B" to this brief.

Personal Saving

Historical

Over the past 8 years personal savings have amounted to about 25% of total Canadian savings. (1) The saving context of the income dollar does not vary much; thus the more people earn the more they save in the aggregate. A rising standard of living is one sure way to increase personal savings. From 1961 to 1966 personal savings increased from 6.8% to 8.6% of personal disposable income.

(1) Appendix "B"

The Commission concludes that if its proposals were adopted, overall personal savings might be reduced by $135 to $150 million annually, most of which would result directly from increased income taxes payable by the upper income groups.

Effects of proposals

We know through past experience that the bulk of the funds invested directly by the individual in marketable securities is derived from the savings of the upper income group and from pools of capital previously accumulated or inherited by them. Since current savings would be reduced, large sums formerly used to support the growth of the Canadian economy would no longer be available. Large pools of capital now controlled by individuals would be decimated within a relatively short period of time through the proposal to include gifts and bequests as taxable income of the recipient at full progressive rates. Since these pools of capital usually include assets which will have appreciated in value, this process would be accelerated by the introduction of a capital gains tax.

Contractual savings

A significant amount of personal savings is of a contractual nature. The Commission's proposals regarding Registered Retirement Income Plans is a welcome improvement on the present system and should encourage individual saving.

$12,000 limit

However, the $12,000 maximum annuity at age 65, suggested by the Commission, would severely limit the availability of this form of saving, as far as the middle and upper income groups are concerned. For example, it can be shown that a person starting work at age 23 at $6,000 annually, who receives annual increases of 4% and who contributes along with his employer 5% of his income to a pension plan earning 7% per annum cumulatively, would by age 35 have paid in sufficient to produce a $12,000 annuity at age 65. Thereafter, contributions could only be made from tax-paid income and subsequent earnings of the fund would be deemed taxable income of the individual contributor.

Increased savings in these plans by the lower income groups would probably occur at the expense of other forms of contractual saving and Canada Savings Bonds. We do not expect that the tax reductions suggested by the Commission for this group will result in any significant increase in saving.

Comment

It appears to be a basic philosophy of the Commission that Canadians be encouraged to consume at the expense of saving and investment. This we object to most strenuously. If we are to continue to enjoy an expanding economy, saving should be encouraged rather than discouraged.

Corporate Savings

Corporate savings are the major source of capital funds in Canada, having averaged about 75% of all Canadian savings for the past eight years. Corporate savings consist mainly of capital cost allowances, depletion and retained earnings.

Capital cost allowances

During the eight years 1959 to 1966 inclusive gross business savings amounted to some $51 billion. Of this capital cost allowances and depletion amounted to approximately $41.5 billion, or about 81%. (2) The present system of capital cost allowances for depreciable assets and the current level of rates would be adopted in the proposed system. However, the Commission would cancel depletion allowances and eliminate accelerated depreciation except for new and small business. As a result, the capital cost allowances and depletion component of business savings would be somewhat reduced.

Capital cost allowances would not be available until an asset had been put into use. This provision would further decrease cash flows, increase the costs of new projects, reduce overall business savings, and inject a bias against undertakings which involve long periods of construction and development. To stimulate saving and investment in new and small businesses, the Commission suggests a limited programme

(2) Appendix "B"

of accelerated capital cost allowances up to a maximum of $250,000 per firm over a ten-year period. While this might be of considerable importance to individual companies, the overall effect upon business saving would be quite limited.

Effects of proposals

The Commission concludes that its recommendations would have no effect on corporate savings. While corporate savings, as a whole, would otherwise be reduced by the additional taxes of $532 million, the Commission believes that, because shareholders' after-tax yields would increase as a result of the integration proposal, corporations would be able to reduce their cash dividends to offset the increased tax burden. We do not agree with this theory.

Dual tax rate

The major portion of the tax increase is a result of removing the dual tax rate on corporate income. As this would increase each company's tax by no more than $10,150, it would be unlikely to force large companies to reduce dividends. On the other hand, the effect on small firms would be disproportionately heavy, especially where advantage could not be taken of the special capital cost allowances proposed.

Special tax concessions

According to the Report, the proposal to remove the special tax concessions to the extractive industries would have increased the immediate tax burden on these corporations by some $150 million in 1964. In addition, it should be pointed out that loss to these companies of prospective depletion would substantially increase future income taxes payable. Furthermore, the withdrawal of the 3-year tax-free period would add to a sharp reduction in future cash flows. The result would be both a reduction of cash dividends and a substantially reduced business saving in these industries.

Dividend reductions

As a result of the integration of personal and corporate income taxes, and if corporate management were only concerned with the lower and middle income shareholders, the cash dividends might be reduced somewhat without affecting the shareholders' net cash position

significantly. This is by no means clear. Shareholders might very well object to the reduction of present and future cash dividends for the sake of allocations the benefits of which could only be realized at a later date. Confucius say, "Bird in hand worth two in bush".

Under the Commission's proposals, non-resident shareholders would not receive the benefits of integration and in most cases would, therefore, strongly object to a reduction in cash dividends. This would be particularly true of foreign portfolio investors.

The decision to reduce cash dividends, or to hold them steady while earnings rise (reduced pay-out), would be made by each corporation in the light of its own financial needs and shareholder requirements.

If, as we believe, the Commission's optimistic views are wrong and cash dividends were maintained, then corporate savings in the form of retained earnings would fall by substantially the full amount of the tax increase, i.e. $532 million per annum. This would compare with the average net new issues of corporations amounting to $763 million average over the 5-year period 1960-1964 inclusive. Comment

The Commission suggests that had their proposals been in effect in 1964 the Government would have realized increased revenues of $222 million. In that same year government dissaving, according to the National Account figures, amounted to $21 million. The Commission deducts this figure from the $222 million figure and assumes that the difference of approximately $200 million would have been net Government savings.

We are unable to accept these figures with the same degree of certainty the Commission attributes to them but, even if we were able to do so, we could still be faced with annual reductions of personal and corporation savings amounting to more than $650 million. So that, if the Commission's proposals were adopted, the net loss in Canadian savings could still be in excess of $450 million per annum.

GIFTS AND BEQUESTS

The Commission's proposals on taxation would have a substantial effect on accumulated savings passing from one generation to the next. The major proposals are: Proposals

1. The abolition of the present Estate and Gift Tax and the inclusion of gifts and inheritances in the comprehensive tax base.

2. The deemed realization of property at death.

3. The concept of the family and individual as tax units.

The abolition of the present Estate and Gift Tax and the inclusion of gifts and inheritances as income of the recipient taxable at full progressive rates would substantially increase the tax on accumulated savings passing from one generation to the next, especially for the smaller estates through removal of the present basic exemption. Effects

The five-year averaging provision and the use of income adjustment accounts would, to some extent, alleviate the full impact of these harsh proposals.

The following table gives some indication of the confiscatory nature of the Commission's proposals, but does not include the additional tax on deemed realized capital gains payable by the estate.

Amount of Gift, Estate or Inheritance	Average Rate of Tax: Present Legislation: Gift Tax (A)	Average Rate of Tax: Present Legislation: Estate Tax	Average Rate of Tax: Proposed Rates(B) Gifts or Bequests
$10,000	6.6%	Nil	20.4%
30,000	11.3	Nil	21.5
50,000	13.8	Nil	23.0
100,000	16.3	10.2%	26.7
500,000	22.8	24.6	41.3
1,000,000	26.9	31.4	45.6
1,500,000	27.92	36.3	47.1
2,000,000	27.94	39.8	47.8
3,000,000	27.96	44.5	48.5

(A) Assuming minimum allowable exemption of $4,000.

(B) Assuming beneficiary is married has no children, has other income of $7,000 per annum and makes use of the 5-year averaging provisions.

In addition to the increased tax rates on gifts and inheritances, the Commission's proposal that all unrealized capital gains at the death of the last surviving member of a family unit be deemed to be realized and be taxed at full rates prior to the disposition of the estate would have the effect of further reducing accumulated savings passing to the next generation. The severity of this reduction would be dependent on the amount of the unrealized gains in relation to the total estate.

Family unit

The third proposal, that of the family unit, would allow more flexibility in the transfer of savings between husband and wife than at present. The family unit, consisting of husband, wife and dependent children, would become the taxation unit requiring all members to pool their incomes for the purpose of calculating the income tax payable. The family unit would exist as long as one member remained. The transfer of property, within the family unit, would be without tax effect. The present law levies a tax on the estate at the death of a husband even though he is survived by a wife and/or dependent children and this often results in a financial strain on the survivor. The Commission's proposal removes this by recognizing the husband and wife as one economic unit and is a very desirable change.

However, the rules governing a dependent child severely limit the flexibility in estate planning which presently exists. A dependent child would be considered a member of the family unit until age 21, at which time the child would normally be required to leave the family unit. When leaving the family unit, the child would be taxed at full progressive rates on any property taken from the unit, subject to a $5,000 life-time exemption, even though the property might have been acquired from the child's own earnings. Furthermore, there would be a deemed realization of the property withdrawn, and the family unit would be subject to tax on the deemed gain.

The proposals concerning gifts and inheritances would have a serious effect on many family-owned businesses. The proposed rate of tax could be considerably higher than at present. The deemed realization of capital appreciation might be substantial in relation to the overall value, and in effect, would be levied on the business, all too frequently an illiquid asset. This deemed realization, combined with the tax payable by the recipient on the residue of the estate could create a forced sale of the business, possibly to foreign control. Family businesses

This is another example of the Commission's intent to redistribute wealth which in turn would foster consumption at the expense of saving. Canada must have accumulated savings, particularly large pools of private savings, in order to develop its resources. Man saves in order to maintain independence in later life and not become dependent on the State, and to improve the economic well-being of his family. These are socially desirable aims and should be encouraged. Comment

We are strongly opposed to the Commission's proposals for the taxation of gifts and bequests, on the grounds that they would create a basic unfairness through double taxation at punitive rates, and that they might stunt the desire of one generation to improve its lot and that of its sons and daughters. They would probably be wasteful in administration, and would throttle at the source, the growth of development funds.

CAPITAL GAINS

The Commission's proposals to treat capital gains as income include the right to deduct capital losses, and through integration to write up the cost of equities to the extent of allocations. The tax-payer would also be permitted under certain circumstances to use the proposed 5-year averaging provisions and the income adjustment accounts to reduce partially the full impact of this tax. The Commission also proposes a $25,000 lifetime exemption on Proposals

gains from the sale of property held for personal use.

Comment

The Commission has ignored the effect of inflation which, over the past 10 years, has reduced the purchasing power of our dollar by 18%. In view of this, and the fact that the taxpayer would not be allowed to claim any loss on the sale of residential property held for personal use, the $25,000 exemption would be woefully inadequate. A capital gains tax would reduce the rate of capital accumulation by individuals and corporations.

The Commission bases its case for including capital gains in income for tax purposes on its definition of equity and goes so far as to say that even if there were no net return from the capital gains tax because of the administrative expenses involved in collection, the tax should still be applied. This we object to most strenuously. It is beyond comprehension that the Commission could recommend such a course of action solely on the basis of its definition of "fairness". If Canadians are to own more of our means of production we cannot afford to deliberately reduce private capital accumulations, the basic ingredient of economic development.

MOBILITY OF CAPITAL

In theory, investment funds should move easily and automatically to the uses of optimum return. However, while markets are far from perfect now, there is a strong possibility that the Commission's proposals would add to the imperfections.

Effects of capital gains tax

The capital gains tax, despite integration, five-year averaging, and the ability to deduct losses from income, would tend to lock investors into situations where large capital gains would be taxable on disposition. The ability to deduct capital losses could be a counter-influence. By and large, however, the capital gains tax would introduce new rigidities in the market. Furthermore, the tax itself might inhibit some investors from buying the higher risk investments because of the reduction in the anticipated

return, while others might take greater chances to compensate for the tax should the venture be successful. On balance, a capital gains tax, particularly at full progressive rates, would be a further impediment to the flow of funds.

Contractual savings

To the extent that the Commission's proposals increase investment in Registered Retirement Income Plans, and pension plans, more savings would be concentrated in the hands of institutions, thus removing many individual investors from the market. Because of their contractual obligations, these institutions tend to be conservative in their investment policies.

Conclusion

The Commission's proposal would tend to inhibit further the flow of funds into higher risk undertakings, small companies, and new and imaginative ideas. Moreover, the reduction in the number of buyers and sellers would make equity markets less liquid, particularly, if at the same time, we discourage the foreign investor.

FOREIGN INVESTMENT

Historically, Canada has been a capital importing country. Foreign investment has continued to grow quite rapidly reaching $32.8 billion at book value at the end of 1964. The United States accounted for some $23.1 billion of this figure. (1) Market values, of course, would have been much greater.

Although the Carter Commission stresses the need to avoid discouraging this foreign capital, it proposes a number of brinksmanship-like measures that would affect the flow of capital to and from Canada.

Effect of the Proposals

The integration of personal and corporate income taxes would benefit Canadian investors, but foreign investors would be excluded. Higher taxation resulting from withdrawal of depletion and special incentives to the ex-

(1) Dominion Bureau of Statistics

tractive industries, an area where the foreign investor is a major factor, would seriously affect international capital flows. Higher withholding taxes on funds flowing from Canada are proposed. It is also proposed to tax the resident foreigner on his world-wide holdings, which appears difficult and onerous.

Portfolio investment

In the portfolio investment sector, the Commission envisages non-residents divesting themselves of Canadian equities and increasing their holdings of Canadian bonds with Canadian investors following the opposite course because of the tax advantages of integration. However, we believe that most foreign equity investors would delay selling until the expected price rise has taken place. When non-residents do sell their equities, we believe that these funds would be repatriated and thus lost to Canada, since there is no reason to assume that these equity buyers would become buyers of Canadian bonds.

Direct investment

We believe the impact of the provisions of the Report would have a less pronounced effect on foreign direct investment, other than in the life insurance and extractive industries. Direct investment is relatively insensitive to the level of the stock market. Higher equity prices might make it more attractive for some foreign companies to take Canadians into partnership in their subsidiaries. However, there has been little tendency in this direction, and we do not feel that increases in equity prices would alter this situation dramatically. A major reason for this reticence is that most foreign corporate managements do not wish to be hindered by minority shareholders. The foreign direct investors' basic reasons for establishing facilities in Canada would not change under the Commission's proposals, for they are governed by such considerations as supplies of materials, markets, tariffs and long term prospects of economic growth.

Changes in after-tax return however, may affect Canada's attraction for new direct investment and the rate of expansion of existing foreign direct investment. Sufficiently onerous changes would cause direct investment to depart.

Dependence on foreign funds

Governments would have to rely more heavily on the bond market, and corporations too may wish to increase their borrowings. At the same time, there would be a substantial reduction in the domestic supply of funds for debt securities because of the decline in private and corporate savings and the relative attractiveness of equities. This imbalance of demand and supply would raise interest costs and substantially increase our dependence on foreign sources of debt money.

Balance of payments

The Canadian balance of international payments is quite delicate. Since 1952, Canada has been running a deficit on current account which in 1965 and 1966 amounted to about $1 billion per annum. (1) In essence, this deficit has been balanced by capital borrowings in the United States. Important questions to Canada are: Will the American lender continue indefinitely to provide us with this amount of money on an annual basis; will the United States Government continue to permit us to obtain these funds in the light of their own balance of payments problems; how much more can we obtain from this source without upsetting investor confidence? Our studies indicate that if the Commission's proposals were adopted, our requirements for debt funds from foreign sources to finance our economy would increase substantially.

If we can maintain the confidence of the foreign lender, then as the Commission suggests, small increases in our interest rates would permit the Canadian lender to be replaced by non-resident lenders. If at the same time, Canadians liquidate their foreign portfolio investments and repatriate their funds to take advantage of the anticipated

(1) Bank of Canada - Statistical Summary Supplement.

increase in Canadian equity prices, and if there was no immediate offset from foreign holders through liquidation of their Canadian equities, we could have a substantial net inflow of foreign funds, particularly United States dollars. This could create strong upward pressure on our fixed rate of exchange, and lead to a rapid accumulation of foreign exchange reserves which could breach our foreign exchange agreement with the United States Government and could precipitate a balance of payments problem.

Possible financial crisis

If however, the United States Government imposes restrictions on the flow of debt capital to Canada, or if foreign confidence in Canadian markets deteriorates, it is possible that our yield structure no matter how high, could fail to attract non-resident funds, in which case we could be faced with a financial crisis in Canada.

Higher interest costs

Under the Commission's proposals, interest costs would be higher for all borrowers. We recognize that there could be a multiplier effect to the extent that these increased costs are paid to Canadian lenders. However, the Commission expects and we agree, all things being equal, that the bulk of these additional costs will be paid to foreign lenders. The direct effect of these higher borrowing costs for corporations, however, would reduce their competitive position especially in export markets.

Investment abroad

Many Canadian residents would sell their foreign investments in order to participate in the windfall gains resulting from the Commission's proposals. Once this has been accomplished, it is possible that some of these investors would again be attracted to the American market for reasons of diversity, liquidity and action. If this occurs, and if as we expect the foreign investor would have been driven out, the liquidity of our stock markets could be sharply reduced.

Conclusion

Can we afford to adopt this tax structure which is so radically different from that of our major trading partners?

EXTRACTIVE INDUSTRIES

Implementation of the Carter Report would have a pronounced effect on the extractive industries with respect to their future rate of growth, their ability to finance and on the attitudes of investors towards their securities.

Proposals

The Commission's proposals for the extractive industries include the immediate cancellation of depletion allowances for mining and petroleum companies and a five-year phased withdrawal of the three-year tax exemption for new mines. This would result in higher taxes for most mining and petroleum companies, with some cushion provided by liberalized write-offs in the transition period. The increased tax burden would fall heaviest on the larger companies, and the Commission estimates that about 80% of the additional tax burden would be borne by non-residents.

Commission's view

In the Commission's view, the discovery of natural resources is far from costless under the present system of tax concessions, and to the Commission, the important question is whether such discoveries warrant the additional cost in terms of other output forgone when labour and capital are diverted to this use.

Comment

We believe that the Commission's attitude toward the extractive industries is shortsighted. The contribution of these industries to the Canadian economy historically and for the future must not be overlooked.

Importance of extractives

One of the most important factors fueling our rapidly developing economy and enabling us to enjoy a rising standard of living, has been the great abundance of natural resources with which Canada is blessed and our ability to develop them. The mining industry directly employs some 150,000 people in exploration, extraction, processing, smelting and refining, while the petroleum industry through exploration and refining directly employs an estimated 35,000 people. The extractive industries indirectly provide substantial employment in the construction, manufacturing and

service industries which are the backbone of a developing economy. The 1965 mineral production in Canada, including petroleum and natural gas, was valued at $3.7 billion. Exports of these products amounted to $2.7 billion and accounted for over 30% of our total export trade. (1) Our balance of payments are estimated to be improved by about $1 billion a year through the displacement of imported petroleum and exports of domestic crude oil. The mining and petroleum industries make a large net annual contribution to federal, provincial, and municipal governments, and this is particularly true of the petroleum industry which is a major source of revenue to the western provinces.

Comment

While it is certainly true that the present tax system has been a factor in the growth of our extractive industries, these industries are most important to our economic development and our balance of payments. In order to keep pace with our growing domestic demand and to further expand our position in the highly competitive export markets, it is essential that the search for and development of new low cost resources be encouraged. The point we wish to make is that the Commission has focused its attention much more on the tax concessions given to the extractive industries than on the serious reprecussions its proposals might have on the growth of these industries, on our economy and on our balance of payments.

Subsidies versus tax concessions

The Commission believes that if any stimulus is required in the extractive industries, it should be effected through subsidies rather than tax concessions. This would unfortunately leave management policy subject to political and bureaucratic decision and to potential abuse of influence. The present tax concessions are established by law and apply only on profits earned. The Commission calculates that if the present incentives of depletion and tax free status had not been in force in 1964, the government's revenue would

(1) Dominion Bureau of Statistics.

have been increased by $149 million. This amount is included in the calculations of the total government revenue that the Commission says its system would have produced. However, as we are unable to find in the Report any off-setting figures for subsidies, we conclude that the anticipated surplus of $222 million for 1964 cited by the Commission would have been reduced to the extent that the government implemented the Commission's suggestion of direct subsidies to the extractive industries.

Financing expansion

In our opinion, the implementation of the Commission's proposals would seriously reduce the ability of companies in these industries to finance their future expansion. For example, the elimination of depletion and the tax-free period would reduce the cash flows of mining companies by approximately 30% and extend the debt retirement period on a new producing mine by some 20% beyond that required under present tax laws. The proposals would have a much more immediate effect on the major companies in the mining and petroleum industries than on the smaller companies which have sizeable exploration and development costs relative to earnings. Smaller companies, however, strive to build the base for eventual profits and the present tax concessions are a real incentive to them.

After-tax return

The Commission's views on foreign investment and the effect of tax rates on the extractive industries also warrant some comment. It concedes that the determination of a tax rate on the income from foreign investment in Canada, which would not inhibit such investment or bring retaliation, would require a knowledge of other indirect benefits to these foreign investors. The Commission acknowledges that it did not have the answer to either of these critical factors, but said it suspects that such foreign investment is insensitive to after-tax rates of return. We question this theory. While obviously a number of other factors influence foreign investment in our extractive

industries, it is inconceivable that responsible management would undertake investment without detailed consideration of the after-tax rate of return.

Conclusion

A great deal of foreign capital is invested in our extractive industries, and if we are not competitive, such capital will move to other countries in order to maximize the after-tax rate of return. The Commission's proposals could inadvertently set in motion a foreign capital outflow which might be joined by domestic capital in search of more attractive opportunities in other countries.

Share cost write-down

To compensate for higher taxes and a diminished growth potential in the extractive industries, the Commission proposes that the shareholder be allowed to write-down his cost of newly issued shares to the extent that the proceeds were to be used for exploration and development. The mechanics of this proposal could be quite involved, and in our opinion, it would be a limited incentive to attract capital to this industry.

Conclusion

Historically, Canadians have been reluctant to commit their funds to risk ventures. This probably explains in part the high degree of foreign investment in our extractive industries. If the Commission's proposals were adopted, we would expect a substantial change in attitude toward portfolio investment in the extractive industries. With growth prospects in the extractive industries reduced and a capital gains tax in effect the Canadian investor would be even less inclined to invest in the extractive equities. At the same time, the foreign portfolio investor would seek more attractive opportunities elsewhere.

ADMINISTRATIVE PROBLEMS

Comprehensive tax base

The Comprehensive tax base proposed by the Commission would bring virtually all annual net gains less net losses from every conceivable source, whether in cash or in kind, into income for tax purposes. Many of the additional items

are of a minor nature and probably would not produce as much revenue as was spent to collect it, while others may give rise to serious administrative problems. Yet all must be included, the Commission says, because their definition of equity demands it.

Effects of proposal

To assume, as the Commission does, that all Canadians will scrupulously calculate and willingly pay their tax liabilities because someone tells them that the system is "fair" is, we suggest, rather naive. No one likes to pay taxes. The present system of self-assessment works now only because the sources of taxable income are limited, most of the tax is deducted at the source, therefore most individual taxpayers never get their hands on the tax money and so lack the opportunity of non-payment even if they had the inclination. The Commission deplores tax deferrment, abhors tax avoidance and roundly criticises the time and effort some taxpayers spend to minimize their tax liabilities, even though it is perfectly legal. Yet this is a normal human reaction which we do not expect will be changed if the Commission's proposals are adopted. The rules of the game may change but the players will not.

Comment

To attempt by law to include non-cash benefits from employers such as subsidized meals in company cafeterias, normal acts of human kindness like room and board for an elderly relative, gambling gains, windfalls, etc., in taxable income would be impractical, unpopular and virtually non-enforceable, while the revenue return would be relatively negligible.

Gifts and bequests

The proposal to treat gifts and bequests from outside the family unit as income, taxable at the marginal rate of the recipient, would not be considered a good tax, even among the lower income group, if they fully understood the implications. The suggested lifetime exemption of $5,000 is totally inadequate and would mean that even those in modest circumstances would be subject to this tax, if the meticulous records envisaged by the Commission were, in fact, kept. The opportunities and the temptations to avoid payment of this tax

would be infinite and the government would require a virtual army of investigators and informers to keep evasion within wholesale limits. Would the effort of enforcement be worth the price? The potential loss of government prestige alone would be incalculable.

Capital gains

The effects on capital accumulation, mobility and liquidity of the proposal to include capital gains in income for tax purposes have already been discussed. The problems of record keeping would be immense. For government and large corporations with computer equipment the task would be expensive, but not impossible. For smaller companies and individuals, however, the burden of maintaining the detailed records suggested by the Commission would be excessive. To this would be added the necessity for all taxpayers to obtain a valuation of every asset they owned. Moreover, the Commission suggests that this would have to be completed within two years of implementation and be acceptable to government or settled in the courts. The result would be a bonanza for appraisers, a headache for government, and an additional expense to taxpayers.

Integration

The Commission deserves full marks for its imaginative plan to eliminate double taxation on corporate earnings. Its proposal to integrate corporate and personal income for tax purposes is ingenious. Not only would it provide tax-free dividends to shareholders but to the extent that the individual shareholder's marginal rate was less than 50% he could claim a refund or tax credit from the government. In addition, the corporation would be permitted to notionally allocate undistributed earnings which the shareholder could use to write-up the cost of his shares against a future sale, thus reducing his potential tax liability if he sold at a profit or, conversely, increasing his deductible claim if he sold at a loss. The adoption of this proposal would certainly make the equity issues of Canadian companies more attractive to Canadian investors and should greatly stimulate their participation in our stock markets.

Problems of integration

However, we can foresee certain problems in the application of this plan - for the government in administration, for the corporation in determining policy, for the shareholder in reporting and for the investor in appraising the relative merits of equities. To process the claims of shareholders for tax credits or refunds, to police capital gains and to verify capital losses on the disposal of shares would, we expect, require a considerable addition to government's clerical staff and a corresponding increase in administrative costs. The application of this plan to a company which reports to its shareholders on the same basis as it reports to the tax authorities, and which has a relatively simple capitalization should present no difficulties. However, imagine, if you will, a company which 'normalizes' capital cost allowances for tax purposes but reports to shareholders on a 'flow-through' basis, recording depreciation on the estimated useful life of the assets; complicate this with a diversified capital structure including, convertible debentures and share purchase warrants, both protected against dilution; first preference shares entitled to priority in dividends and distributions of capital; second preference shares entitled to priority in dividends and capital over junior ranking shares; participating Class A shares entitled to priority in dividends over the common shares for a specified amount and then to participate with the common after a like amount has been paid on the common shares; and voting common shares. Under such circumstances, which do exist in the business community today, the problems of corporate management, shareholders and investors would be a great deal more complex if the Commission's proposal to integrate corporate and personal income for tax purposes was adopted.

Capital gains tax

We are strongly opposed to the inclusion of capital gains in the tax base of Canadian corporations and individuals because in our expanding econcmy it would make us still more dependent upon the import of large quantities of foreign capital to achieve the rate of growth which all of us deem

necessary for the well-being of Canadians. To deliberately reduce domestic capital accumulations, which a capital gains tax would do, would be a serious mistake.

Tax-free dividends

If capital gains were not included in the tax base, then the Commission's proposal to eliminate double taxation on corporate earnings could be greatly simplified. Dividends could be made tax-free in the hands of the recipient and allocations of undistributed earnings would not be necessary. Would this not achieve the purpose and at the same time eliminate government refunds to shareholders and other potential administrative problems?

Sales tax

The Commission recommends that the present federal tax of 12% at the manufacturers' level be replaced by a 7% sales tax at the retail level; that the provincial governments be induced to collect this tax, along with their own and remit the proceeds to Ottawa; and that the provinces change the application of their sales tax to correspond with the proposed federal tax. These recommendations are typical of the Commission's approach to the problems of taxation, highly logical but frequently ignoring the facts of life. The disagreements in recent years between federal and provincial authorities in tax-sharing matters have been well documented and with the growing demands of the provinces for a larger share of the tax dollar, such recommendations seem impractical, to say the least. The public reaction to a combined sales tax of 10-18% at the retail level can be left to your imagination!

APPENDIX A

TABLE 1 [1]

Government of Canada Direct and Guaranteed Bonds [2]

	$ million					
	1959	1960	1961	1962	1963	1964
Bank of Canada	2,677	2,744	2,876	2,936	3,091	3,115
% of total value	15.6	15.5	15.4	15.1	15.2	15.0
% change over prior year	.3	2.5	4.8	2.1	5.3	.[illegible]
Chartered Banks	2,811	3,057	3,792	3,371	3,933	3,705
% of total value	16.4	17.2	20.3	17.3	19.4	17.9
% change over prior year	-20.2	8.8	24.0	-11.1	16.7	- 5.8
Federal, Provincial, and Municipal Governments	1,503	1,487	1,308	1,295	1,127	1,395
% of total value	8.8	8.4	7.0	6.7	5.6	6.7
% change over prior year	-15.0	- .9	-12.2	- 1.0	-13.0	23.8
Life Insurance Companies	617	699	667	667	670	611
% of total value	3.6	3.9	3.6	3.5	3.3	2.9
% change over prior year	8.2	13.3	- 4.6	1.5	- 1.0	- 8.8
Other Insurance Companies	437	474	485	499	508	530
% of total value	2.5	2.7	2.6	2.6	2.5	2.6
% change over prior year	17.8	8.5	2.3	2.9	1.8	4.3
Quebec Savings Banks	28	39	37	32	30	31
% of total value	.4	.2	.2	.2	.1	.2
% change over prior year	- 0 -	39.3	- 5.1	-13.5	- 6.3	3.3
Trust & Mortgage Loan Companies	241	341	382	392	425	505
% of total value	1.4	1.9	2.1	2.0	2.1	2.4
% change over prior year	5.2	41.5	12.0	2.6	8.4	18.3
Trusteed Pension Plans - Industry	359	385	319	309	279	251
% of total value	2.1	2.2	1.7	1.6	1.4	1.2
% change over prior year	18.1	7.2	-17.1	- 3.1	- 9.7	-10.0
Trusteed Pension Plans - Other[3]	234	270	283	299	303	300
% of total value	1.3	1.5	1.5	1.5	1.5	1.4
% change over prior year	21.9	15.4	4.8	5.7	1.3	- 1.0
All Other Resident (Residual)	7,506	7,441	7,668	8,684	8,837	9,217
% of total value	43.7	41.9	41.2	44.6	43.6	44.5
% change over prior year	22.4	- 8.7	3.1	13.2	1.8	4.3
Total Resident	16,413	16,939	17,817	18,494	19,203	19,660
% of total value	95.8	95.4	95.6	95.1	94.7	94.8
% change over prior year	4.0	3.2	5.2	3.8	3.8	2.4
Non-Resident	722	808	819	954	1,073	1,073
% of total value	4.2	4.6	4.4	4.9	5.3	5.2
% change over prior year	14.2	11.9	1.4	16.5	12.5	- 0 -
Total[4]	17,135	17,747	18,636	19,448	20,276	20,733
% of total value	100.0	100.0	100.0	100.0	100.0	100.0
% change over prior year	4.4	3.6	5.0	4.4	4.3	2.3

TABLE 2[1]

Provincial Direct & Guaranteed Bonds[2]

			$ million			
	1959	1960	1961	1962	1963	1964
Bank of Canada						
% of total value						
% change over prior year						
Chartered Banks	346	324	352	407	386	372
% of total value	5.4	4.7	4.3	4.5	3.8	3.4
% change over prior year	-16.6	- 6.4	8.6	15.6	- 5.2	- 3.6
Federal, Provincial, and Municipal Governments	1,152	1,187	1,245	1,361	1,497	1,527
% of total value	18.1	17.3	15.2	15.1	14.7	13.8
% change over prior year	2.5	3.0	4.9	9.3	10.0	2.0
Life Insurance Companies[5]	462	526	823	920	1,023	1,075
% of total value	7.3	7.7	10.0	10.2	10.1	9.7
% change over prior year	11.6	13.9	56.5	11.8	11.2	5.1
Other Insurance Companies[5]	241	260	283	295	326	332
% of total value	3.6	3.8	3.5	3.3	3.2	3.0
% change over prior year	8.6	7.9	8.8	4.2	10.5	1.8
Quebec Savings Banks	90	87	89	83	78	78
% of total value	1.4	1.3	1.1	.9	.8	.7
% change over prior year	-11.8	- 3.3	2.3	- 6.7	- 6.0	- 0 -
Trust & Mortgage Loan Companies	121	130	160	167	189	205
% of total value	1.9	1.9	2.0	1.9	1.9	1.8
% change over prior year	- 9.0	7.4	23.1	4.3	13.2	8.5
Trusteed Pension Plans - Industry	364	394	495	562	634	697
% of total value	5.7	5.8	6.0	6.2	6.2	6.3
% change over prior year	11.0	8.2	25.6	13.5	12.8	9.9
Trusteed Pension Plans - Other[6]	640	721	815	920	1,041	1,171
% of total value	10.0	10.5	9.9	10.2	10.2	10.5
% change over prior year	14.9	12.7	13.0	12.9	13.2	2.9
All Other Resident (Residual)	1,334	1,556	2,164	2,295	2,597	2,860
% of total value	21.0	22.7	26.4	25.4	25.5	25.8
% change over prior year	12.5	16.6	39.1	6.1	11.6	10.1
Total Resident	4,750	5,185	6,426	7,010	7,771	8,317
% of total value	74.6	75.7	78.4	77.7	76.4	75.0
% change over prior year	6.0	9.2	23.9	9.1	10.9	7.0
Non-Resident	1,616	1,663	1,771	2,013	2,399	2,772
% of total value	25.4	24.3	21.6	22.3	23.6	25.0
% change over prior year	23.6	2.9	6.5	13.7	19.2	15.5
Total[7]	6,366	6,848	8,197	9,023	10,170	11,089
% of total value	100.0	100.0	100.0	100.0	100.0	100.0
% change over prior year	10.0	7.6	19.7	10.1	12.7	9.0

TABLE 2[1]

Provincial Direct & Guaranteed Bonds[2]

	1959	1960	1961	1962	1963	1964
			$ million			
Bank of Canada						
% of total value						
% change over prior year						
Chartered Banks	346	324	352	407	386	372
% of total value	5.4	4.7	4.3	4.5	3.8	3.4
% change over prior year	-16.6	- 6.4	8.6	15.6	- 5.2	- 3.6
Federal, Provincial, and Municipal Governments	1,152	1,187	1,245	1,361	1,497	1,527
% of total value	18.1	17.3	15.2	15.1	14.7	13.8
% change over prior year	2.5	3.0	4.9	9.3	10.0	2.0
Life Insurance Companies[5]	462	526	823	920	1,023	1,075
% of total value	7.3	7.7	10.0	10.2	10.1	9.7
% change over prior year	11.6	13.9	56.5	11.8	11.2	5.1
Other Insurance Companies[5]	241	260	283	295	326	332
% of total value	3.6	3.8	3.5	3.3	3.2	3.0
% change over prior year	8.6	7.9	8.8	4.2	10.5	1.8
Quebec Savings Banks	90	87	89	83	78	78
% of total value	1.4	1.3	1.1	.9	.8	.7
% change over prior year	-11.8	- 3.3	2.3	- 6.7	- 6.0	- 0 -
Trust & Mortgage Loan Companies	121	130	160	167	189	205
% of total value	1.9	1.9	2.0	1.9	1.9	1.8
% change over prior year	- 9.0	7.4	23.1	4.3	13.2	8.5
Trusteed Pension Plans - Industry	364	394	495	562	634	697
% of total value	5.7	5.8	6.0	6.2	6.2	6.3
% change over prior year	11.0	8.2	25.6	13.5	12.8	9.9
Trusteed Pension Plans - Other[6]	640	721	815	920	1,041	1,171
% of total value	10.0	10.5	9.9	10.2	10.2	10.5
% change over prior year	14.9	12.7	13.0	12.9	13.2	2.9
All Other Resident (Residual)	1,334	1,556	2,164	2,295	2,597	2,860
% of total value	21.0	22.7	26.4	25.4	25.5	25.8
% change over prior year	12.5	16.6	39.1	6.1	11.6	10.1
Total Resident	4,750	5,185	6,426	7,010	7,771	8,317
% of total value	74.6	75.7	78.4	77.7	76.4	75.0
% change over prior year	6.0	9.2	23.9	9.1	10.9	7.0
Non-Resident	1,616	1,663	1,771	2,013	2,399	2,772
% of total value	25.4	24.3	21.6	22.3	23.6	25.0
% change over prior year	23.6	2.9	6.5	13.7	19.2	15.5
Total[7]	6,366	6,848	8,197	9,023	10,170	11,089
% of total value	100.0	100.0	100.0	100.0	100.0	100.0
% change over prior year	10.0	7.6	19.7	10.1	12.7	9.0

TABLE 3[1]

Municipal Direct and Guaranteed Bonds [3]

	1959	1960	1961	1962	1963	1964
	$ million					
Bank of Canada						
% of total value						
% change over prior year						
Chartered Banks	204	209	231	250	287	307
% of total value	6.1	5.6	5.7	5.7	6.1	6.0
% change over prior year	4.6	2.0	6.3	8.2	14.8	7.0
Federal, Provincial, and Municipal Governments	389	436	429	495	559	713
% of total value	11.5	11.6	10.6	11.3	11.9	14.0
% change over prior year	9.3	12.1	- 1.6	15.6	12.9	27.5
Life Insurance Companies[5]	507	547	601	626	676	727
% of total value	15.0	14.6	14.8	14.3	14.5	14.3
% change over prior year	11.2	7.9	9.9	4.2	8.0	7.5
Other Insurance Companies[5]	110	121	129	134	142	151
% of total value	3.3	3.2	3.2	3.1	3.0	3.0
% change over prior year	6.8	10.0	6.6	3.9	6.0	6.3
Quebec Savings Banks	47	41	44	39	36	33
% of total value	1.4	1.1	1.1	.9	.8	.7
% change over prior year	-11.3	-12.8	7.3	-11.4	- 7.7	- 8.3
Trust & Mortgage Loan Companies	54	70	90	102	122	140
% of total value	1.6	1.9	2.2	2.3	2.6	2.8
% change over prior year	- 3.6	29.6	28.6	13.3	19.6	14.8
Trusteed Pension Plans - Industry	193	219	246	260	305	322
% of total value	5.7	5.9	6.0	6.0	6.5	6.3
% change over prior year	5.5	13.5	12.3	12.3	17.3	5.6
Trusteed Pension Plans - Other [6]	147	170	194	206	241	272
% of total value	4.4	4.5	4.8	4.7	5.2	5.4
% change over prior year	16.7	15.6	14.1	6.2	17.0	12.9
All other Resident (Residual)	807	904	1,058	1,109	1,152	1,130
% of total value	23.9	24.2	26.1	25.3	24.6	22.3
% change over prior year	6.5	12.0	17.0	4.8	3.9	- 1.9
Total Resident	2,458	2,716	3,022	3,221	3,520	3,795
% of total value	72.9	72.6	74.5	73.6	75.2	74.8
% change over prior year	7.7	10.5	11.3	6.6	9.3	7.8
Non-Resident	912	1,024	1,036	1,155	1,158	1,278
% of total value	27.1	27.4	25.5	26.4	24.8	25.2
% change over prior year	16.9	12.3	1.2	11.5	.3	10.4
Total [7]	3,370	3,740	4,058	4,376	4,678	5,073
% of total value	100.0	100.0	100.0	100.0	100.0	100.0
% change over prior year	10.0	11.0	8.5	7.8	6.9	8.4

TABLE 4[1]

Corporate and Other Bonds [4]

	1959	1960	1961	1962	1963	1964
	$ million					
Bank of Canada	59	64	88	127	151	177
% of total value	.8	.9	1.2	1.6	1.9	2.0
% change over prior year	11.3	8.5	37.5	44.3	18.9	17.2
Chartered Banks	512	473	470	457	462	487
% of total value	7.3	6.4	6.4	5.8	5.7	5.5
% change over prior year	- 7.6	- 7.6	- .6	- 2.8	1.1	5.4
Federal, Provincial and Municipal Governments	16	31	58	105	111	169
% of total value	.2	.4	.8	1.3	1.4	1.9
% change over prior year	-14.3	93.8	87.1	81.0	5.7	5.2
Life Insurance Companies[5]	1,924	1,983	1,918	2,013	2,099	2,175
% of total value	27.4	26.9	26.2	25.6	25.7	24.5
% change over prior year	3.6	3.1	- 3.3	5.0	4.3	3.6
Other Insurance Companies[5]	132	150	146	158	160	187
% of total value	1.9	2.0	2.0	2.0	2.0	2.1
% change over prior year	6.5	13.6	- 2.7	8.2	1.3	16.9
Quebec Savings Banks	21	25	25	26	26	26
% of total value	.3	.3	.4	.3	.3	.3
% change over prior year	16.7	19.0	- 0 -	4.0	- 0 -	- 0 -
Trust & Mortgage Loan Companies	93	118	141	154	221	240
% of total value	1.3	1.6	1.9	2.0	2.7	2.7
% change over prior year	9.4	26.9	19.5	9.2	43.5	8.6
Trusteed Pension Plans - Industry	486	555	607	653	712	765
% of total value	6.9	7.5	8.3	8.3	8.7	8.6
% change over prior year	11.5	14.2	9.4	7.6	9.0	7.4
Trusteed Pension Plans - Other[6]	53	68	73	78	101	127
% of total value	.8	.9	1.0	1.0	1.2	1.4
% change over prior year	20.5	28.3	7.4	6.8	29.1	25.7
All other Resident (Residual)	1,209	1,385	1,144	1,113	958	1,078
% of total value	17.2	18.8	15.6	14.1	11.7	12.1
% change over prior year	- 8.3	14.6	-17.4	- 2.7	-13.9	12.5
Total Resident	4,505	4,852	4,670	4,884	5,001	5,431
% of total value	64.1	65.7	63.8	62.0	61.3	61.1
% change over prior year	- .1	7.7	- 3.8	4.6	2.4	8.6
Non-Resident	2,520	2,529	2,645	2,994	3,163	3,459
% of total value	35.9	34.3	36.2	38.0	38.7	38.9
% change over prior year	1.6	.4	4.6	13.2	5.6	9.4
Total [7]	7.025	7,381	7,315	7,878	8,164	8,890
% of total value	100.0	100.0	100.0	100.0	100.0	100.0
% change over prior year	.5	5.1	- .9	7.7	3.6	8.9

TABLE 5

Equity-Common & Preferred Stock at Book Values

	$ million					
	1959	1960	1961	1962	1963	1964
Life Insurance Companies [1.]	171	176	218	220	257	338
% of total value	.5	.5	.6	.6	.6	.7
% change over prior year	6.9	2.9	23.9	.9	16.8	31.5
Other Insurance Companies [2.]	64	66	73	80	86	101
% of total value	.2	.2	.2	.2	.2	.2
% change over prior year	14.5	3.1	10.6	9.6	7.5	17.4
Mutual Funds [3.]	320	329	444	477	582	709
% of total value	1.0	1.0	1.3	1.2	1.4	1.6
% change over prior year	10.2	2.8	35.0	7.4	22.0	21.8
Trust & Mortgage Loan Companies [1.]	66	73	86	o01	117	123
% of total value	.2	.2	.3	.3	.3	.3
% change over prior year	6.5	10.6	17.8	17.4	15.8	5.1
Trusteed Pension Funds [4.]	236	259	342	423	519	647
% of total value	.7	.8	1.0	1.1	1.3	1.4
% change over prior year	9.8	9.7	32.0	23.7	22.7	24.7
Inv. & Holding Companies [3.]	176	225	284	298	353	404
% of total value	.6	.7	.8	.8	.9	.9
% change over prior year	3.1	27.8	26.2	4.9	18.5	14.4
All Other Resident	16,186	16,187	16,183	18,660	20,395	23,850
% of total value	50.2	48.4	46.4	49.0	49.8	53.1
% change over prior year	10.5	- 0 -	- 0 -	15.3	9.3	16.9
Total Resident	17,219	17,315	17,630	20,259	22,309	26,172
% of total value	53.4	51.8	50.6	53.2	54.5	58.2
% change over prior year	11.2	.6	1.8	14.9	10.1	17.3
Non-Resident [5.]	15,012	16,137	17,240	17,845	18,653	18,773
% of total value	46.6	48.2	49.4	46.8	45.5	41.8
% change over prior year	9.4	7.5	6.8	3.5	4.5	.6
Total [6.]	32,231	33,452	34,870	38,104	40,962	44,945
% of total value	100.0	100.0	100.0	100.0	100.0	100.0
% change over prior year	9.9	3.8	4.2	9.3	7.5	9.7

TABLE 6

Mortgage Loans & Agreement of Sale

	1958	1959	1960	$ million 1961	1962	1963	1964
Life Insurance Companies[1]	2,529	2,787	3,011	3,291	3,639	4,043	4,492
% of total value	41.3	38.5	36.9	35.8	34.9	34.2	33.2
% change over prior year	6.8	10.2	8.0	9.3	10.6	11.1	11.1
Other Insurance Companies[2]	6	6	8	13	21	25	29
% of total value	0.1	0.1	0.1	0.1	0.2	0.2	0.2
% change over prior year	- 0 -	- 0 -	33.3	62.5	61.5	19.0	16.0
Trust Companies[1]	344	408	470	633	849	1,107	1,453
% of total value	5.6	5.6	5.7	6.9	8.1	9.4	10.7
% change over prior year	25.5	18.6	15.2	34.7	34.1	30.4	31.3
Mortgage Loan Companies[1]	580	641	710	831	985	1,185	1,491
% of total value	9.5	8.9	8.7	9.0	9.4	10.0	11.0
% change over prior year	10.3	10.5	10.8	17.0	18.5	20.3	25.8
Trusteed Pension Funds[1]	231	279	300	341	418	482	545
% of total value	3.8	3.8	3.7	3.7	4.0	4.1	4.0
% change over prior year	29.8	20.8	7.5	13.7	22.6	15.3	13.1
All Other Resident	2,429	3,120	3,670	4,098	4,531	4,983	5,536
% of total value	39.7	43.1	44.9	44.5	43.4	42.1	40.9
% change over prior year	31.4	28.4	17.6	11.7	10.6	10.0	11.1
Total Resident[3]	6,119	7,241	8,169	9,207	10,443	11,825	13,546
% of total value	100.0	100.0	100.0	100.0	100.0	100.0	100.0
% change over prior year	17.7	18.3	12.8	12.7	13.4	13.2	14.5
Non-Resident		N O T	A V A I L A B L E				
% of total value							
% change over prior year							
Total							
% of total value							
% change over prior year							

NOTES-TABLE 1

1. Source: Bank of Canada Statistical Summary - Supplement.

2. Holdings are shown at par value where available, in other cases at book value. Includes treasury bills and Canada Savings Bonds.

3. Pension plans of federal crown corporations and government agencies, teachers federations, provincial crown corporations and government agencies, municipal, religious, charitable and health organizations, trade and employee associations and co-operatives.

4. Until May 3, 1962 foreign pay issues were converted at the rate of £1 = $2.80 Cdn. and $1.00 U.S. = $1.00 Cdn. Commencing May 3, 1962, they have been converted at the official rates of exchange of £1 = $3.027 Cdn. and $0.925 U.S. = $1.00 Cdn.

NOTES-TABLES 2, 3 and 4

Source: - Bank of Canada Statistical Summary - Supplement

1. Holdings are shown at par value where available, in other cases at book value.

2. Includes Manitoba and Saskatchewan Treasury Bills. In 1961 $409 million B.C. Electric bonds formerly included with corporate bonds were guaranteed by the province of British Columbia. In 1963 $247 million of bonds of several Quebec Hydro-Electric utilities were assumed by Quebec - Hydro.

3. Excludes municipal bonds guaranteed by the provinces and bonds sold directly to municipal financing agencies set up by provincial governments whose bonds are included under provincial guaranteed debt.

4. Excludes a relatively small amount of funded debt which it has not been possible to identify by issue. "Other" bonds consists of those of Canadian religious and other institutions. In 1961 and 1963, affected by the reclassification of bonds of hydro-electric utility companies referred to in footnote 2.

5. Companies registered under federal Insurance Acts.

6. Pension plans of federal crown corporations and government agencies, teachers foundations, provincial crown corporations and government agencies, municipal, religious, charitable and health organizations, trade and employee associations and co-operatives.

7. Until May 3, 1962 foreign pay issues were converted at the rate of £1 = $2.80 Cdn. and $1.00 U.S. = $1.00 Cdn. Commencing May 3, 1962, they have been converted at the offical rates of exchange of £1 = $3.027 Cdn. and $0.925 U.S. = $1.00 Cdn.

NOTES-TABLE 5

1. Bank of Canada Statistical Summary - Supplement.

2. Report of the Superintendent of Insurance for Canada-Annual Reports Volume I.

3. (a) Financial Post Survey of Investment Funds.
   (b) Bank of Canada Statistical Summary - Supplement.

4. Trusteed Pension Plans, Financial Statistics, D.B.S. publication 74-201.

5. Canadian Balance of International Payments, D.B.S. publication 67-201.

6. Taxation Statistics - Taxation Division of the Department of National Revenue.

NOTES-TABLE 6

1. Bank of Canada Statistical Summary - Supplement.

2. Report of the Superintendent of Insurance for Canada-Annual Reports Volume I.

3. Central Mortgage and Housing Corporation - Canadian Housing Statistics, Annual edition.

APPENDIX B

NATIONAL SAVINGS ACCOUNT, 1959 - 66

SOURCE

	1959	1960	1961	1962	1963	1964	1965	1966
				millions of dollars				
Personal net savings excluding change in farm inventories	1,433	1,519	1,823	2,141	2,220	2,158	2,871	3,289
Value of physical change in farm inventories	-76	16	-278	176	311	-99	56	149
Business gross saving	5,185	5,269	5,333	5,862	6,464	7,182	7,594	8,036
(a) Undistributed corp. profits	986	837	757	937	1,066	1,389	1,444	1,230
(b) Capital consumption allowances & misc. valuation adjustments	4,204	4,423	4,540	4,892	5,198	5,600	6,100	6,591
(c) Adjustment on grain transactions	-5	9	30	6	139	111	-44	156
(d) Capital assistance			6	27	61	82	84	59
Inventory valuation adjustment	-122	-70	-89	-130	-200	-131	-325	-318
Government surplus (+) or deficit (-)	-556	717	-1,005	-854	-690	-21	246	280
Residual error of estimate	-30	-39	-15	-263	-243	-6	-8	336
Totals	5,834	5,978	5,769	6,932	7,862	9,083	10,450	11,772

Source: DBS National Accounts

NATIONAL SAVINGS ACCOUNT, 1959 - 66

DISPOSITION

	1959	1960	1961	1962	1963	1964	1965	1966
	millions of dollars							
Business gross fixed capital formation	6,894	6,692	6,635	6,960	7,591	9,103	10,651	12,214
(a) New residental construction	1,734	1,443	1,458	1,577	1,707	2,021	2,124	2,178
(b) New non-residential construction	2,589	2,577	2,683	2,638	2,835	3,358	4,024	4,811
(c) New machinery & equipment	2,571	2,672	2,494	2,745	3,049	3,724	4,503	5,225
Value of physical change in inventories	357	410	30	532	535	386	948	995
Surplus (+) or deficit (-) on current account with non-residents	-1,448	-1,164	-911	-823	-507	-412	-1,141	-1,101
Residual error of estimate	31	40	15	263	243	6	-8	-336
Totals	5,834	5,978	5,769	6,932	7,862	9,083	10,450	11,772

Source: DBS National Accounts